

**CITY OF LODI  
INFORMAL INFORMATIONAL MEETING  
"SHIRTSLEEVE" SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, NOVEMBER 18, 2003**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, November 18, 2003, commencing at 7:01 a.m.

**A. ROLL CALL**

Present: Council Members – Beckman, Hansen, Howard, Land, and Mayor Hitchcock

Absent: Council Members – None

Also Present: City Manager Flynn, City Attorney Hays, and City Clerk Blackston

**B. CITY COUNCIL CALENDAR UPDATE**

City Clerk Blackston reviewed the weekly calendar (filed).

**C. TOPIC(S)**

C-1 "Capital projects funding and design options"

City Manager Flynn commented that Electric Utility Director Vallow has been a strong advocate of an approach to building capital projects which focuses on controlling costs.

Mr. Vallow noted that there are many projects the City needs over the next ten years and there are alternatives to traditional ways of building and financing these projects even during tough budget times.

With the aid of an overhead presentation (filed), Greg Parrett, President of Valley Management Group, stated that he had been in the construction field for 30 years and was educated in industrial engineering. He has built high-rises, 160 homes in Palm Springs, and was the vice president of a \$900 million construction company in San Francisco. Five years ago he started Valley Management Group, which he explained was based around clients and controlling the construction process to bring projects within budget and on schedule. Valley Management Group is currently working on projects for the cities of Tracy and Lathrop. To illustrate the role that change orders play in increasing costs, he described a project he was involved in with Stanford University that resulted in \$4 million worth of change orders. He also described a project he recently managed in Canada, in which he provided assistance in phased construction to control costs.

Mr. Parrett stated that there are several financial institutions that his company deals with, i.e. private venture capitalists and/or developers. His goal is to have a guaranteed maximum price and for this reason he disliked change orders. He believed that the most important part of projects is the definition of the scope of work. He described a typical project in which he brings the entire team together in the programming stage. He gives the general contractor a time and material contract for the first 25% of the design, negotiates his hourly rates and fees, and then they begin on the scope of work. When 25% of the design is complete (which takes approximately three weeks) an agreement is reached on the budget and scope of work. When 90% of the design is complete, he asks the general contractor for a guaranteed maximum price, scope, and schedule.

Mr. Parrett reported that Valley Management Group is building a fire station for the city of Tracy. It was originally estimated at \$2.3 million, and through value engineering the architect's drawings, he reported that it will be constructed for \$900,000. He described an alternative in which a developer or financial institution buys the property and finances the project so that it becomes a private project, which enables him to do value engineering. The project is then built and leased back to the city for 20 or 30 years. Mr. Parrett

commented that this alternative allows cities not to spend their own money on capital projects, and instead use funds for paramedics, equipment, etc. Once the project is built, the owner becomes the landlord of the property. Maintenance of the building is taken care of by the landlord. He stated that the buyer eventually becomes the seller, and noted that the City can buy the property at any time. He recommended looking at two sites, due to the negotiating flexibility it offers. He pointed out that the developer has a better chance of negotiating for the property than the city would. Mr. Parrett stated that he knew of four financial institutions (i.e. developers) that would be interested in handling a project in this way.

In answer to Council Member Hansen's concern about quality and longevity of the building, Mr. Parrett stated that guarantees are given from the manufacturer and the general contractor.

In reply to Mayor Hitchcock's inquiry regarding cost savings, Mr. Vallow reported that Mr. Parrett had looked at the bid estimates on the soccer complex project and believed it could be done for 25% less. He stated that a private developer would have tax advantages and favorable financing rates, which would get rolled back into the lease price.

Fire Chief Pretz explained that at the end of 20 years the City would have paid 15% more than if it had built the building and owned it outright; however, in this process the annual costs are considerably less. He stated that this kind of financing could only be used for Fire Station 2 and rebuilding Fire Station 1 because they are already in existence.

Mayor Hitchcock asked Chief Pretz if he could afford the annual lease cost from his operating budget. He stated that a 20-year lease cost on \$1.3 million amounts to \$10,000 a month. A 30-year lease would be \$8,000 a month. Chief Pretz explained that the lease cost is not programmed in the budget now; however, he believed that once the paramedic program moves forward, and partnerships are developed to bring in revenue, the money could be spent on the lease cost or to offset the additional personnel cost.

Mayor Pro Tempore Howard spoke in support of the concept of public and private partnerships. She noted that the City already has design work done on a number of projects and asked Mr. Parrett if they could be used in the process he described.

Mr. Parrett replied that he has already looked at value engineering the sports complex and fire station, noting that he is charging "almost nothing" for the analysis.

Council Member Land commented that it appears as though the process described by Mr. Parrett is an attempt to circumvent regulations regarding prevailing wages. He asked if the City would be limited on what funds it used to pay for the lease agreement.

Mr. Flynn explained that if the intent is to construct a public building, then public laws apply to it. He reminded Council that Certificates of Participation are similar to a lease back arrangement.

City Attorney Hays confirmed that if the purpose for which the building is being constructed is for municipal or governmental use, then prevailing wage applies.

**D. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS**

None.

**E. ADJOURNMENT**

No action was taken by the City Council. The meeting was adjourned at 8:21 a.m.

ATTEST:  
Susan J. Blackston, City Clerk